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The Honorable Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia
941 North Capitol St. NE, Suite 800
Washington DC 20002

Dear Mr. Gandhi:,

As the result of large increases in assessed values in the District, you requested an independent review of the assessment process. The results of that review are attached.

There is nothing an assessor can do if the increases are the result of rapid change in market value. The assessor can however assure that values are kept current and therefore minimize the effect of catching up on outdated values.

The methodology used by the District for the past two years was appropriate for the circumstances. In addition several initiatives have been undertaken which will improve the process in future years. I make several recommendations which if implemented will further improve the system.

I appreciate the full and complete cooperation of Dr. Henry Riley and MrThomas Branham. They were a great help in allowing me to fully research the necessary facts.

Sincerely,

A handwritten signature in dark ink, appearing to read "Otho C. W. Fraher CAE". The signature is fluid and cursive, with the initials "Otho" being prominent.

Otho C. W. Fraher, CAE

Background

The Real Property Assessment Division (RPAD) of the Office of Tax and Revenue is charged with listing and appraising all of the real property within the District of Columbia. There are approximately 170,000 parcels of real estate in the District. These parcels include residential, commercial, condominiums, co-ops and exempt property.

Once the property is listed and appraised, the RPAD must send notices of assessment to property owners and allow time for an appeal to the RPAD. If the taxpayer is not satisfied with the result of the informal hearing the next step in the process is an appeal to the Board of Real Property Assessment and Appeals (Board). The final level of appeal is to the Superior Court of the District of Columbia.

In 2002 the RPAD sent approximately 106,000 notices and 5,800 informal appeals were filed. This is approximately 5.5 percent of the properties. Increases in assessment were larger than normal due to several factors. The real estate market in the District is very active with rapidly increasing values is one reason. Another reason is the under-valuation of some properties in the past. Some of these increases are because some of the property had not been valued for three years.

Purpose

Because of concern by taxpayers and members of the City Council about large increases in assessed value, sequential large increases in assessed value and concern about the methodology employed by RPAD, the Chief Financial Officer (CFO) requested an independent review of the assessment procedures in the District. This report reviews the procedures followed by the RPAD. There is no "national model" for the organization of an assessment office. Real estate assessments are generally a local function within a framework outlined by state statute or state Constitutional provision. There are standards for various elements of an overall assessment system published by the International Association of Assessing Officers (IAAO). The District is unique in that there is no overseer other than Congress in these matters. In most localities there is a state agency that evaluates the work of the assessor, assists with the assessment of unusual properties, or performs other assistance or oversight to the assessment function.

The procedures of the district are evaluated in the context of successful assessment systems in other localities as well as the appropriate IAAO standard. A separate study by another consultant will examine the performance measures and statistical results of the most recent valuations.

Methodology

The real estate assessment system in the District has suffered immensely from 20 years of neglect. Budget constraints, overly ambitious plans for data collection and ill-advised attempts at automation left the office with insufficient staff and few tools.

In an effort to correct this situation, several years ago the District went to the triennial assessment system used by the state of Maryland. The utilization of this system allowed time to stabilize operations, develop systems, and implement a first level administrative appeal process. A CAMA system utilizing the cost approach was used to value tri-group one and two properties and land tables were developed for these properties for the first time in many years.

RPAD also implemented a new computer assisted mass appraisal (CAMA) system this year. This system utilizes a property specific, market oriented cost approach. This was utilized in only four neighborhoods. All major commercial properties were valued by the income approach and a large portion of the general commercial property was valued by the cost approach.

For the past two years the vast majority of residential properties were assessed using a technique called trending. This method essentially calculates the assessment level in homogeneous areas and adjusts individual assessed values to a level near market value. This is a simplified description but is sufficient for this report. As part of this process sales verification questionnaires were sent to buyers of the property that were sold. Once the questionnaires were returned most of the properties were examined to assure accurate information was used in the assessment process.

The other element of the assessment process is the appeals system. The system employed by the District is an informal hearing before the RPAD, followed by a more formal hearing before the Board of Real Property Assessment and Appeals, and an ultimate and final hearing before the Superior Court of the District of Columbia. Aside from a reference to a state level appellant board, this process is consistent with the IAAO *Standard on Assessment Appeal*. A copy of this standard is attached to this report.

Findings

Trending is a tool employed by many assessment offices. It allows an office to keep assessments current in all areas of a jurisdiction when manpower and other resources are insufficient to physically review all parcels. It also allows a jurisdiction to maintain a proper level of assessed values while implementing long range solutions to problems.

Examples of the use of trending are located in many areas. The City of Richmond, Virginia used 100 percent trending on residential properties for the current year and last year. Some year's ago Fairfax County, Virginia utilized a computer system, sophisticated for its day that generated values by the cost approach, by multiple regression (market approach) and trending. The appraiser could choose any of the approaches or override the system and substitute another value. The appraisers selected trending the majority of the time according to Sam Pattison, MAI, CAE, and the assessor at the time.

Trending is an acceptable technique but should not be used alone for extended periods of time. An actual appraisal, either manual or automated, must be performed periodically to maintain the physical data in a current state. Trending is referred to in the IAAO *Standard on Mass Appraisal of Real Property*. This standard is attached.

The assessment procedures currently employed by RPAD are acceptable and do not provide a reason to invalidate the current proposed assessed values.

The appeals process is consistent with the appeals process recommended by IAAO. The essential parts of the process are an informal appeal that can eliminate errors caused by incorrect data and sometimes other errors, without the time and expense of a more formal process. The board hearing seems to be a sophisticated process that can resolve technical issues, and of course the ultimate arbiter is the court system.

Recent Innovations

Property characteristics are now posted on the Internet and available without charge to anyone with Internet access. The RPAD makes computers available for use for those without access. This is an exciting development that allows taxpayers and others to get assessment information and property descriptions at any time. Individuals can call the assessor's attention to errors on their own property or the property of others. This should facilitate appeal hearings and help taxpayers make informed judgements as to the validity of the assessed values. Programs such as this are consistent with the IAAO *Standard on Public Relations*. A copy of this standard is attached to this report.

The RPAD has computerized, in a secure manner, thousands of items of income and expense data on commercial properties. This organizes the data in a way that will enhance the productivity of the commercial appraisers. This information can be used to calibrate the income approach.

A computer assisted mass appraisal (CAMA) system has been installed. In areas of the District where this system has been utilized the quality of assessed values have improved. This system is driven by sales information and requires that sold properties be carefully inspected to be certain that the property characteristics are accurately recorded.

Recommendations

Efforts must be continued to improve the descriptive data. This is an important part of any system. To have a good CAMA system both the sold and unsold properties must be accurately described in terms of size, property type, grade, etc. A concerted effort must be made to assure accurate data. If outside sources are utilized, extreme efforts must be made to assure accuracy.

It is important that work be continued in the area of capturing sketches and photographs in the computer database and providing full integration of GIS into the system.

Adequate staffing must be maintained. Actual staffing levels are beyond the scope of this report, but efforts must be made to assure an adequately trained, motivated staff in adequate numbers to do the job. IAAO publishes information or staffing standards in its textbook *Property Appraisal and Assessment Administration*. The RPAD completed an internal study of proposed staffing levels in September 2001. A copy of this report is accompanies this report.

Affiliation with professional organizations such as the IAAO should be encouraged. Professional designations awarded by professional organizations should be encouraged. I believe that there are only two designations currently in the ranks of professional staff although others have the certifications offered by the District under the auspices of the Appraisal Foundation. These certifications are no substitute for advanced designations. IAAO has a *Standard on Professional Development* and a copy of this standard is attached. One way to reward participation in professional organizations and subsequent professional enhancement of professional qualifications is to pay for professional education and salary enhancements for designations. Paid time away from work should be allowed for work with these professional organizations and professional dues should be paid.